SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based on the provisions contained in the legislation as of the latest date listed below.)

Prepared By: Ways and Means Committee

BILL: CS/CS/CS/SB 2176

INTRODUCER: Ways and Means Committee, Health and Human Services Appropriations Committee, Health Care Committee and Senator Peaden

SUBJECT: Rural Hospitals

DATE: April 24, 2006 REVISED: _____ _____ _____ _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	Bedford	Wilson	HE	**Fav/CS**
2.			CA	**Withdrawn**
3.	Dull	Peters	HA	**Fav/CS**
4.	Dull	Coburn	WM	**Fav/CS**
5.			RC	
6.				

I. Summary:

The bill amends various sections of the Florida Statutes with respect to rural hospitals and rural health care delivery systems in Florida as follows:

- Revises the purpose and functions of the Office of Rural Health (ORH or office) in the Department of Health (DOH or department) to include fostering the development of service-delivery systems and cooperative agreements to enhance the provision of high-quality health care services in rural areas.
- Requires the Secretary of the Agency for Health Care Administration (AHCA or agency) and the Secretary of Health to each appoint no more than 5 members to an advisory council to advise the office on its responsibilities as written in law.
- Requires ORH to annually submit a report to the Governor, the President of the Senate, and the Speaker of the House of Representatives summarizing the activities of the ORH beginning January 1, 2007.
- Revises legislative findings and intent with respect to rural health networks.
- Redefines a rural health network.
- Establishes requirements for membership in rural health networks.
- Outlines the functions, and services to be provided by members of rural health networks.
- Requires coordination between rural health networks and area health education centers, health planning councils, and regional education consortia.
- Establishes requirements for funding rural health networks and provides performance standards.
- Expands the existing Phase II funding of rural health networks to include rural health network infrastructure development grants.

- Requires ORH to monitor rural health networks to ensure continued compliance with established certification and performance standards.
- Requires DOH to establish rules governing the provision of grant funds under Phase I and Phase II and the establishment of performance standards for networks.
- Amends the rural hospital licensure statutes to define the term critical access hospital, deletes the terms emergency care hospital and essential access community hospital, and revise the definition of rural primary care hospital.
- Specifies special conditions for rural primary care hospitals.
- Specifies the purposes of rural hospital capital improvement grants and modifies the conditions for receiving those grants.
- Requires the Agency for Health Care Administration (AHCA or agency) to pay certain physicians a bonus for Medicaid physician services provided within a rural county.
- Requires a study to be conducted by the Office of Program Policy Analysis and Government Accountability on the financing options for replacing or changing the use of certain rural hospitals, with a report due to the Legislature by February 1, 2007.
- Provides appropriations.

Substantially amends the following sections of the Florida Statutes: 381.0405, 381.0406, 395.602, 395.603, 395.604, 395.6061, 408.07, 409.908, 409.9116, and 1009.65.

Repeals s. 395.605, F.S

Creates one unnumbered section of law.

II. Present Situation:

Office of Rural Health
Florida's Office of Rural Health is located within the Department of Health and has been the focal point for the development and administration of Florida's rural health policy since 1991 (s. 381.0405, F.S.).

The office's mission is to actively foster the provision of health care services in rural areas and serve as a catalyst for improved health services to citizens in rural areas of the state. The office works with other state and federal programs as Florida's rural health representative, disseminates information on Florida's rural health services, and acquires and distributes state and federal funds to assist in maintaining a coordinated and sustainable system of rural health services.

Since 1997, the office has been focused on three key programs within rural health; the Medicare Rural Hospital Flexibility Program, the Rural Hospital Capital Improvement Grant Program, and the development and support of the state's statutory rural health networks.

Medicare Rural Hospital Flexibility Program
The Medicare Rural Hospital Flexibility Program, developed under the Balanced Budget Act of 1997 (Public Law 105-33), and "fine-tuned" through provisions of the Balanced Budget Refinement Act of 1999 and the Benefits Improvement and Protection Act (BIPA) of 2000, was created to rectify imbalances of Medicare reimbursement rates between urban an rural providers. The program developed the Critical Access Hospital reimbursement category for rural hospitals.

This new type of hospital is an acute care facility that provides emergency, outpatient, and limited inpatient services and is required to have no more than 15 beds and 10 "swing beds"(inpatient beds which may also be used for other services such as part of a Skilled Nursing Facility). The average annual length of stay for all inpatients must be 96 hours (4 days) or less and emergency services must be available 24 hours per day, seven days per week. Certain other regulations must be followed concerning physical location, relations with larger, tertiary care hospitals, and credentialing and quality assurance procedures. In return, these hospitals are reimbursed on a "reasonable cost" basis for inpatient, outpatient, and laboratory services delivered to Medicare patients. The ORH currently oversees the conversion applications, financial feasibility studies, community needs assessments, and conversion of rural hospitals to Critical Access status.

The Medicare Rural Hospital Flexibility Program also contains a grant program, administered by the Federal Office of Rural Health Policy. Grants of up to $775,000 per state per year are provided to improve rural health systems with an emphasis on improving Emergency Medical Services. The ORH applies for, receives, and administers these grant funds.

Rural Hospital Capital Improvement Grant Program
In 1999, the Florida Legislature established the rural hospital capital improvement grant program through which statutory rural hospitals, as defined by s. 395.602, F.S., may apply for financial assistance to "acquire, repair, improve, or upgrade systems, facilities, or equipment" (s. 395.6061, F.S.). Upon fulfilling basic application conditions, each qualifying rural hospital receives a minimum of $100,000 per year for such capital improvements, if funds have been appropriated by the Legislature. The application, review, and administration procedures for this program are responsibilities of ORH.

Rural Health Networks
In 1993, the Legislature established the basis for the formation of cooperative, nonprofit health networks in rural areas of Florida in s. 381.0406, F.S. These organizations were directed to address the fundamental problems in rural health: inadequate financing, problems with recruitment and retention of health personnel, and migration of patients from rural providers to urban providers, thus undermining the abilities of rural hospitals to continue to provide timely and effective care. The networks are intended to integrate public and private health resources, to emphasize cooperation over competition, and to increase usage of statutory rural hospitals in an effort to support rural economies.

Nine rural health networks have been formed in Florida. Currently, they cover 28 of the 33 rural counties as well as parts of 13 non-rural counties. The department has the responsibility for certifying the networks and for distributing grant funds to eligible participants. Florida's rural health networks have been in operation since 1993 and serve as the regional organizations responsible for carrying out much of Florida's rural health policy. Rural health networks work closely with rural communities and providers to encourage, organize, and coordinate actions to provide increased health access and improved health care services to rural communities.

Rural Hospitals/Rural Primary Care Hospitals
There are currently 29 operating statutory rural hospitals in Florida; two rural hospitals recently closed. These hospitals serve as the nucleus for the organization and delivery of care in their

respective communities. Twelve rural hospitals have converted to critical access hospitals under the Medicare Rural Hospital Flexibility Grant program. One of these recently closed. This program allows these hospitals to receive cost-based Medicare reimbursement and continue to provide essential health services to rural residents.
The mission of the rural hospitals is to provide appropriate, life-saving health care in rural/isolated areas of the state. Rural hospitals are located in rural counties having a population density of less than 100 persons per square mile, with the majority located in the Panhandle. By definition, rural hospitals have 100 or fewer beds. Nineteen rural hospitals have 50 or fewer beds.

Medicare Bonus Payments
The federal government, recognizing the need for economic incentives to facilitate the development of basic health care services for individuals in rural areas, has established several key programs that promote the provision of primary care services to those of greatest need. Of these, two programs involve bonus payments in the Medicare program for physicians practicing in Health Professional Shortage Areas and Physician Scarcity Areas.

Health Professional Shortage Areas Bonus Payments
The federal Health Professional Shortage Area designation identifies an area or population as having a shortage of dental, mental, and primary health care providers. Those designations are used to qualify for state and federal programs aimed at increasing primary care services to underserved areas and populations.

Among these programs is a ten percent bonus Medicare payment for providers practicing medicine in a Health Professional Shortage Area. The bonus is paid for all Medicare services provided in the shortage area and may be billed along with other incentives programs.

Physician Scarcity Areas Bonus Payments
The Medicare Modernization Act of 2003, §413(a), requires that a new five percent bonus payment be established and paid for services rendered by physicians in geographic areas designated as Physician Scarcity Areas. Under the program, physician scarcity designations are based on the lowest primary care and specialty care ratios of Medicare beneficiaries to active physicians in a particular county. Medicare will pay a five percent bonus on a quarterly basis based on where the service is performed and not on the address of the beneficiary. The bonus may be billed in conjunction with other bonus payments under Medicare.

Each of the Medicare bonus programs are authorized under the federal physician payment regulations found in 42 CFR 447.200 and 42 CFR 447.203.

III. Effect of Proposed Changes:

Section 1. Amends s. 381.0405, F.S. as follows:
- Requires the Office of Rural Health (ORH) to assist rural health care providers in improving the health of rural residents and prepare for risk based reimbursement.
- Revises the purpose, functions and coordination requirements of ORH to enhance health care services in rural areas.

- Requires ORH to assist rural health care providers in recruiting and creating incentives for health care practitioners in rural areas.
- Requires ORH to provide technical assistance to rural health networks in developing their long-range development plans.
- Requires ORH to provide links to best practices and other technical-assistance resources on its website and to conduct research on best practices in the delivery of health care services in rural areas.
- Creates an advisory council for ORH and establishes member selection criteria.
- Requires, ORH to submit an annual report to the Governor, the President of the Senate, and the Speaker of the House of Representatives, summarizing the activities of the office, beginning January 1, 2007.

Section 2. Amends s. 381.0406(1), F.S. as follows:

- Revises legislative findings and intent for the efficient and effective delivery of health care services in rural areas.
- Redefines a rural health network.
- Establishes requirements for membership of rural health networks.
- Requires county health departments to be members of the rural health network whose service area includes the county in which the county health department is located.
- Encourages federally qualified health centers and emergency medical services providers to become members of the rural health networks in the areas in which their patients reside or receive services.
- Provides additional functions for rural health networks and the services to be provided by members.
- Deletes the requirement to develop risk management and quality assurance programs for network providers.
- Requires networks to be not-for-profit corporations, with an independent board of directors.
- Requires provider agreements between the network and its health care provider members to specify the essential functions of the network.
- Provides additional requirements for rural health networks to coordinate with other entities, such as area health education centers, health planning councils, and regional education consortia.
- Requires DOH to support the administrative costs of operating the rural health networks through grants for network operations and for rural health infrastructure development.
- Requires DOH to develop and enforce performance standards for rural health network operations grants and rural health infrastructure development grants.
- Adds additional enhancements to infrastructure development of primary care services.
- Expands the existing Phase II funding of rural health networks to include rural health network infrastructure development grants.
- Requires ORH to monitor rural health networks to ensure continued compliance with established certification and performance standards.
- Requires DOH to establish rules governing the provision of grant funds under Phase I and Phase II and the establishment of performance standards for networks.

Section 3. Amends s. 395.602 F.S., as follows:

- Defines critical access hospital as a hospital that meets the definition of rural hospital in paragraph (d) and meets the requirements for reimbursement by Medicare and Medicaid under 42 C.F.R. ss. 485.601-485.647.
- Deletes the definitions of emergency care hospital and essential access community hospital.
- Changes the definition of rural primary care hospital to a facility that has temporary inpatient care for periods of 96 hours instead of 72 hours and that has at least six licensed acute care beds, rather than no more than six such beds.

Section 4. Amends s. 395.603, F.S., deleting emergency care hospital from provisions relating to the deactivation of licensed beds.

Section 5. Amends s. 395.604, F.S., as follows:

- Requires the agency to treat rural primary care hospitals in the same manner as rural hospitals when reimbursing for Medicaid swing-beds, participating in the Medical Education Reimbursement and Loan Repayment Program and coordinating primary care services.
- Requires expedited reviews of Certificate-of-Need (CON) for rural hospitals applying to be licensed as a rural primary care hospital and for rural primary care hospitals seeking relicensure as acute care general hospitals.
- Exempts rural primary care hospitals from CON requirements for home health, hospice services and for swing beds in a number that does not exceed one half of the facility's licensed beds.
- Requires rural primary care hospitals to have agreements with other hospitals, skilled nursing facilities, home health agencies, and with providers of diagnostic-imaging and laboratory services that are not provided on site but needed by patients.
- Deletes the provision authorizing the Department to seek recognition of emergency care hospitals.

Section 6. Amends s. 395.6061, F.S., as follows:

- Allows a rural hospital to apply for a capital improvement grant program for the acquisition, repair, improvement, or upgrade of systems, facilities, or equipment and requires the application to include evidence that after July 1, 2007, the application is consistent with the rural health network long-range development plan.
- Establishes an agreement mechanism between the Department of Health and financially distressed rural hospitals to allow any remaining funds from the capital improvement grant program to be distributed to those hospitals, and suggests terms that the Department of Health may include in that agreement.

Section 7. Amends s. 409.908, F.S., deleting obsolete language requiring the Medicaid physician fee schedule based on a resource-based relative value scale to be phased in over a 2 year period beginning on July 1, 1994 and provides physicians who have a provider agreement with a rural health care network a 10 percent bonus over the Medicaid physician fee schedule for any physician service provided within the geographic boundary of a rural county as defined by the most recent United States Census as rural.

Section 8. Amends s. 408.07, F.S., correcting a cross-reference in the definition of rural hospital.

Section 9. Amends s. 409.9116, F.S., correcting a cross-reference relating to the disproportionate share/financial assistance program for rural hospitals.

Section 10. Amends s. 1009.65, F.S., correcting a cross-reference relating to the Medical Education Reimbursement and Loan Repayment Program.

Section 11. Requires a study to be conducted by the Office of Program Policy Analysis and Government Accountability on the financing options for replacing or changing the use of certain rural hospitals, with a report due to the Legislature by February 1, 2007.

Section 12. Repeals s. 395.605, F.S., which provides for the licensure of emergency care hospitals. This licensure category is not used.

Section 13. Appropriates $440,000 in non-recurring general revenue to the Office of Program Policy Analysis and Governmental Accountability to contract for a study on the financing options for replacing or changing the use of certain rural hospitals.

Section 14. Appropriates $3,638,709 in recurring general revenue and $5,067,392 in recurring funds from the medical care trust fund to the Agency for Health Care Administration to implement the Medicaid 10-percent bonus payment program.

Section 15. Appropriates $3 million in recurring general revenue to the Department of Health to implement rural health network infrastructure development.

Section 16. Appropriates $3 million in non-recurring general revenue to the Department of Health to implement the rural hospital capital improvement grant program.

Section 17. Appropriates $214,374 in general revenue and authorizes three full time equivalent positions to the Department of Health for the purpose of supporting the advisory council and administering the grant programs.

Section 18. Provides that the bill takes effect July 1, 2006.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

The provisions of this bill have no impact on municipalities and the counties under the requirements of Article VII, Section 18 of the Florida Constitution.

B. Public Records/Open Meetings Issues:

The provisions of this bill have no impact on public records or open meetings issues under the requirements of Art. I, s. 24(a) and (b) of the Florida Constitution.

C. Trust Funds Restrictions:

The provisions of this bill have no impact on the trust fund restrictions under the requirements of Article III, Subsection 19(f) of the Florida Constitution.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

Medicaid physicians who are members of rural health networks will receive a 10 percent bonus payment for physician services provided in rural counties. Rural hospitals qualifying under the bills provisions may receive capital improvement grants.

C. Government Sector Impact:

The following page provides a summary fiscal impact of the bill for Fiscal Year 2006-2007:

	Recurring GR	Non-Recurring GR	Trust Fund	Total
OPPAGA - Contract for the development of a capital improvement/financing plan for rural hospitals that need to replace aging facilities – A consultant hired to determine which rural hospital facilities need to be replaced, what type of replacement hospital should be built, what local resources are available to finance the replacement facilities, what the local and state share of the financing should be, and what conditions should be placed on the receipt of state funds.		$440,000		$440,000
Rural health infrastructure development program – A program to provide funding to Rural Health Networks to finance rural health care service delivery, and clinical and administrative infrastructure development.	$3,000,000			$3,000,000
Rural hospital capital improvement grant program – Funding for the existing grant program. If funding for this program is continued, it should be narrowly focused on the neediest hospitals for short-range improvements or improvements that would be transportable if a replacement facility is built in the future. This would enable the neediest hospitals to survive pending replacement of their facilities.		$3,000,000		$3,000,000
Three additional staff for the Office of Rural Health in the Department of Health and expenses for the advisory council – The additional staff would be necessary to administer the new rural health network improvement grant program, monitor the contract for the rural hospital capital improvement/financing plan and the use of grant funds that are awarded and support the newly created advisory council.	$196,818	$17,556		$214,374
Medicaid "bonus payment" in reimbursement for physicians – 10% increase in Medicaid reimbursement rates to physicians who are members of rural health networks.	$3,638,709		$5,067,392	$8,706,101
TOTAL	$6,835,527	$3,457,556	$5,067,392	$15,360,475

VI. Technical Deficiencies:

None.

VII. Related Issues:

House Bill 5001 includes $5,000,000 in non-recurring General Revenue funds for capital improvement and administrative infrastructure grant programs.

VIII. Summary of Amendments:

None.